RESOURCE DEPENDENCE AND BUDGET TRANSPARENCY

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Are natural resource abundance and opaque budgets inextricably linked? The Open Budget Survey 2008—a comprehensive evaluation of budget transparency in 85 countries—finds that resource-dependent countries tend to be less transparent than countries that are not resource dependent.[2] They perform considerably less well on the Open Budget Index (OBI)—a comparative measure of the accessibility and comprehensiveness of critical budget information based on a subset of Survey questions.[3] Resource-dependent countries register an average OBI 2008 score of 31 out of a possible 100, compared with 45 out of 100 for non-resource dependent countries. Furthermore, with the exception of South Africa, none of the resource-dependent countries appear among the five top OBI performers.[4]

Budgets are less transparent in oil dependent countries

A closer look at the data reveals that the poor performance of resource-dependent countries is largely driven by the lack of budget transparency and accountability in the 22 countries that are considered significant oil and gas producers. Their average OBI score is just 22 out of 100. Countries that depend on mineral resources register scores that are similar to countries that are not resource dependent (47 out of 100). This underscores the need to understand the specific issues associated with each natural resource—including modes of extraction, size, and revenue management systems. The magnitude of revenues flowing into the budget from the oil and gas sector probably explains some of the difference between hydrocarbon and mineral producing countries.[5]

To explore these issues in greater detail, we analyzed a subset of 55 questions from the Survey that focus on key fiscal policy challenges governments face in managing natural resource revenues. The findings presented in Table 1 point to a widespread inability of oil-dependent countries to manage revenue windfalls. These countries score 25 out of 100 on revenue volatility and forecasting—significantly lower than mineral producers (which score 63 out of 100) and non-resource dependent countries (which score 54).

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[2] Using data from the International Monetary Fund *Guide for Revenue Transparency* (2007), 34 countries are classified as natural resource dependent.

[3] For more information on the Survey, and the methodology used to calculate the OBI, see www.openbudgetindex.org.

[4] Top performers are defined as countries that score between 81-100 on the OBI, indicating that they provide extensive budget information to their citizens.

[5] This is often referred to as the size of the economic "resource rent" defined as the surplus value after all costs and normal returns have been accounted for, i.e., the difference between the price at which an output from a resource can be sold and its respective extraction and production costs, including normal return.

Oil-dependent countries also appear to have very poor expenditure control systems, which can allow for the mismanagement of resources. These countries' inability to design long-term plans and link them to medium-term expenditure frameworks and annual budgets may impede economic diversification and poverty reduction. Finally, the fact that revenues derived from oil production and export are often kept out of the budgets of oil-rich countries can further undermine public oversight over how resource windfalls are spent.

Table 1. Performance of Extractive Industry countries by category

Category	Oil Producers	Mineral Producers	Non-Resource Dependent Countries
Revenue volatility and forecasts[6]	25	63	54
Expenditure controls[7]	22	52	48
Link policy/planning/budget[8]	17	37	35
Extra budgetary operations[9]	20	31	32

However, the OBI 2008 results also show that countries can be transparent and accountable to the public despite substantial natural resource endowments. For example, South Africa, Norway, Botswana, and Peru all show strong performance on the OBI relative to other hydrocarbon and mineral producers (see annex). This suggests that an abundance of natural resources need not imply slower economic growth and poor development outcomes, a phenomenon often referred to as the "resource curse." Furthermore, opening budgets can help to channel natural resource revenue towards economic and human development.

The cost of budget opacity in resource dependent countries

The lack of transparency in the budget process of oil-dependent countries has profound implications. For example, low levels of transparency may lead to poor management of resource wealth over the medium to long term. This is a serious concern in countries like São Tomé e Príncipe, which scores 0 out of 100 on the OBI 2008. São Tomé e Príncipe joined the ranks of resource-rich countries only recently and is expected to reap significant gains from oil in the coming years. Greater transparency can provide opportunities for the public and civil society to hold the government accountable for managing these revenues soundly and using them to benefit the country's population—the majority of whom live in poverty.

Low levels of transparency may also hamper a country's international economic integration, as in the case of Saudi Arabia, which scores just 1 out of 100 on the OBI 2008. Despite a growing reputation for sound fiscal policy, international rating agencies refuse to give Saudi Arabia the highest sovereign ratings. There is a feeling that local institutions cannot be fully trusted as long as they remain opaque.[10] Despite circumstantial evidence of well-administered fiscal policy, both ordinary Saudis and international investors lack the information required to assess what the government is actually doing with their money.

[6] Based on average of responses to Questions 7, 8, 9, 10, 14, 15, 27, 28, 29, 30, 31, 32, 36, 46, 72, 86, 87, 88, 90, 95, 99, 105.
[7] Based on average of responses to Questions 11, 13, 18-25, 33, 34, 39, 40, 47, 82, 93, 111, 120.
[8] Based on average of responses to Questions 5, 6, 16, 17, 48, 49, 53, 73, 106.
[9] Based on average of responses to Questions 35, 37, 38, 110, 115.
[10] See http://www.arabianbusiness.com/property/article/503641-gcc-ratings-hindered-by-transparency.

Of greatest concern is that low levels of transparency may have contributed to widespread corruption and human rights crises in Sudan, the Democratic Republic of Congo, and Equatorial Guinea—all of which score 0 out of 100 on the OBI 2008. One of the main drivers of conflict in Sudan has been the historical concentration of wealth and power in the central government in the North, at the expense of the poor majority in the rest of the country. Since 2003, the country has been undergoing an oil and gas boom, accounting for an estimated $2 billion in annual revenues, or nearly 70 percent of the country's exports. Despite the fact that the 2005 peace accord in Sudan mandated disclosure of the amount of oil revenues, neither the government in Khartoum nor that in Southern Sudan have provided this information, leading to suspicion that the money has been used to purchase weapons, not to alleviate poverty. This threatens the stability of the accord.

Why transparency matters in resource dependent countries

The lack of budget transparency in oil-producing countries is likely a direct result of the states' dependence on oil for public revenues. Because the government does not have to depend on taxing its citizens, normal channels of public accountability are often missing in these countries. Special care is needed to establish effective public and legislative oversight of the collecting and spending of revenues generated by resource extraction and export.

Natural resource revenues are volatile and finite, which argues for greater transparency to ensure that windfalls are deployed for development purposes. Because resource extraction can lead to exhaustion of the revenue source, governments in resource-dependent countries must be prepared to replace revenues from resource production and export with other sources of income.

Public discussion of policy options is critical to ensuring resource revenues are used to foster broad-based and sustainable economic growth. Natural resource revenues are also extremely volatile. During periods of booming prices, lack of transparency removes the incentive for governments to prioritize expenditures, diversify the revenue base of the economy, and design plans to mitigate the effects of a sudden change in resource prices. When prices drop, budget opacity hinders public discussion of available policy responses to the fiscal squeeze, often resulting in cuts in social programs and public investment that can undermine poverty reduction efforts.

Strengthening Transparency in Resource Dependent Countries

As the variance across resource-rich countries shows, falling victim to the "resource curse" is not inevitable. Furthermore, there are some key cost-effective measures that resource-rich countries can take to dramatically improve transparency.

A significant number of resource-rich countries actually produce budget information for their internal purposes or donors but fail to disclose it to their publics. Indeed, in 25 out of 34 resource-rich countries surveyed the government produces at least one budget document, and often several, that they do not release to the public. This implies that many countries could quickly and cost-effectively boost budget transparency by simply publishing information that they already produce. For instance, Sudan scores 0 on the OBI 2008 because the country does not release any of the key budget documents to the public. However, though they vary in quality and comprehensiveness, Sudan actually does produce *all but one* of the eight key budget documents required by international good practice.

Finally, the lack of transparency in oil producing countries underscores the need to implement the Extractive Industries Transparency Initiative (EITI) to raise the level public oversight and accountability on resource revenues accruing to budget.[11] The production and publication of reports on resource revenue streams accruing to the government required by the EITI provides a powerful instrument to foster transparency in resource dependent countries. In addition, the participation of civil society organizations in the EITI Board at the international level and in multi-stakeholder committees that oversee the implementation of the initiative in candidate countries creates an opportunity for public scrutiny over the natural resource windfall. Yet OBI results also stress the importance of looking at transparency in the extractive sector beyond the revenue side of the budget. The EITI represents a minimum but flexible standard civil society, governments and companies can use to expand transparency across the value chain of the extractive industry.

[11] EITI requires that companies publish what they pay, and government to publish what they receive. More information on the EITI is available at: www.eitransparency.org.

Annex: Country scores 2006 and 2008

International Budget Partnership Natural Resource Rich Countries			
Country	**Extractive Industry**	**2008 OBI**	**2006 OBI**
Jordan	mineral producer	52	50
Zambia	mineral producer (copper)	47	37
Mongolia	mineral producer (copper, gold)	36	18
Botswana	mineral producer (diamonds)	62	65
Namibia	mineral producer (diamonds)	47	51
Ghana	mineral producer (gold)	49	42
Kyrgyz Republic	mineral producer (gold)	8	
Papua New Guinea	mineral producer (gold)	60	51
Peru	mineral producer (gold, copper, silver)	66	77
South Africa	mineral producer (gold, platinum, coal)	87	85
Democratic Rep. of Congo	oil & mineral producer (diamonds)	0	(…)
Indonesia	oil & mineral producer (tin, copper, gold, silver)	54	41
Algeria	oil producer	1	28
Angola	oil producer	3	4
Azerbaijan	oil producer	37	39
Bolivia	oil producer	5	20
Cameroon	oil producer	5	29
Chad	oil producer	7	5
Colombia	oil producer	60	57
Ecuador	oil producer	38	31
Equatorial Guinea	oil producer	0	(…)
Kazakhstan	oil producer	34	43
Liberia	oil producer	2	(…)
Mexico	oil producer	54	50
Nigeria	oil producer	19	20
Norway	oil producer	80	72
Russia	oil producer	58	47
São Tomé e Príncipe	oil producer	1	(…)
Saudi Arabia	oil producer	0	(…)
Sudan	oil producer	0	(…)
Trinidad and Tobago	oil producer	33	(…)
Venezuela	oil producer	35	(…)
Vietnam	oil producer	9	2
Yemen	oil producer	9	(…)

Note: (…) No country survey was realized for that year